

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 479 - SB 760

February 27, 2009

SUMMARY OF BILL: Exempts from state and local sales tax any goods or services sold, given, or donated to certain civic leagues or organizations designated as Internal Revenue Code § 501(c)(4) organizations.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$263,800
Forgone State Revenue – Exceeds \$27,700

Decrease Local Revenue - \$111,500
Forgone Local Revenue – Exceeds \$9,900

Assumptions:

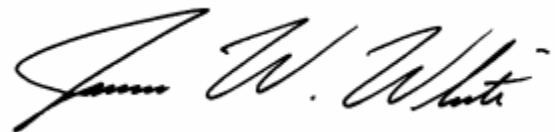
- According to the Internal Revenue Service, Exempt Organizations Business Master File, there are approximately 3,946 non-profit organizations designated as 501(c)(4) organizations.
- Two percent of such organizations (79) are estimated to be located and operating in Tennessee.
- According to the Department of Revenue, 42.4 percent of 501(c)(4) organizations report revenues in excess of \$100,000 per year; as a result, 57.6 percent are assumed to have revenues less than \$100,000 per year.
- The average annual revenue for each 501(c)(4) organization operating in Tennessee is estimated to be \$75,000 per year.
- It is estimated that two-thirds of the average annual revenue (\$50,000) for each 501(c)(4) organization operating in Tennessee is derived exclusively from goods or services sold, given, or donated.
- The number of 501(c)(4) organizations located and operating in Tennessee and the revenue they derive remains constant into subsequent fiscal years.
- Taxable sales eligible for the exemption as proposed is estimated to be \$3,950,000 per year (79 x \$50,000 = \$3,950,000).
- The state sales tax rate is currently seven percent.

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- The decrease of state sales tax revenue is estimated to be \$276,500 per year ($\$3,950,000 \times 7.0\% = \$276,500$).
- Local government receives 4.5925 percent of state sales tax revenue as state-shared sales taxes.
- The decrease of state-shared taxes apportioned to local government is estimated to be \$12,700 per year ($\$276,500 \times 4.5925\% = \$12,698$).
- The net decrease to state revenue is estimated to be \$263,800 per year ($\$276,500 - \$12,700 = \$263,800$).
- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease to local option sales tax revenue is estimated to be \$98,800 per year ($\$3,950,000 \times 2.5\% = \$98,750$).
- The total decrease to local government revenue is estimated to be \$111,500 per year ($\$12,700 + \$98,800 = \$111,500$).
- This bill is expected to incentivize Tennessee schools and qualified charitable organizations to increase their fundraising efforts. As a result, taxable sales of such entities are expected to increase. Determining a precise growth rate for these taxable sales is difficult due to many unknown factors. However, such increase is reasonably estimated to be a minimum of 10 percent. The increase of taxable sales is estimated to exceed \$395,000 per year ($\$3,950,000 \times 10\% = \$395,000$).
- Forgone state revenue is estimated to exceed \$27,700 per year ($\$395,000 \times 7.0\% = \$27,650$).
- Forgone local government revenue is estimated to exceed \$9,900 per year ($\$395,000 \times 2.5\% = \$9,875$).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc